Natural Sciences and Engineering Research Council of Canada Quarterly Financial Report for the Quarter Ended June 30, 2012

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs

1. Introduction

The Natural Sciences and Engineering Research Council of Canada (NSERC) was established in 1978 by the *Natural Sciences and Engineering Research Council Act*, and is a departmental corporation named in Schedule II of the *Financial Administration Act*. NSERC's purpose is to help make Canada a country of discoverers and innovators for the benefit of all Canadians, by supporting postsecondary students and postdoctoral fellows in their advanced studies, promoting discovery by funding the research programs of academic researchers, and stimulating partnerships between academia and industry. Further information on the NSERC mandate and program activities can be found in Part II of the Main Estimates.

This Quarterly Financial Report (QFR) has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board. This quarterly report should be read in conjunction with the Main Estimates and Supplementary Estimates for 2012-13.

Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes NSERC's spending authorities granted by Parliament and those used by the department, consistent with the Main Estimates and Supplementary Estimates for the 2012-13 fiscal year. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before monies can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authorities for specific purposes.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result, the measures announced in the Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-2013, frozen allotments will be established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In future years, the changes to departmental authorities will be implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the subsequent Main Estimates tabled in Parliament.

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

NSERC uses the full accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

This quarterly report has not been subject to an external audit or review.

2. Highlights of Fiscal Quarter

Statement of Authorities

Available Authorities

As of June 30, 2012, NSERC's total available authorities for 2012-13 amount to $1,057 million. The changes in available authorities are the result of previous federal budget announcements that impact both the operating authorities (vote 75), and the grants and scholarships program authorities (vote 80) in the current fiscal year. To date, for 2012-13, these changes resulted in an increase in total authorities of $6.5 million (0.62%) over the prior year, of which $5.2 million (80% of the total changes) represented an increase in NSERC's grants and scholarships programs.

In this quarter, total available authorities incorporate the elements of the 2012-13 Supplementary Estimates (A) (SEA). The SEA is the first of three opportunities to approve changes in NSERC's authority levels for the current fiscal year (other than transfers from Treasury Board votes). The vast majority of these changed elements are the result of previous federal budget announcements, while the balance relate to technical adjustments from Treasury Board and transfers between departments and agencies for specific initiatives. The future and ongoing impacts of SEA elements will be included in NSERC's 2013-14 Main Estimates for the next fiscal year. Due to the called elections, the 2011-12 SEA elements were not included in the first quarter of the last fiscal year. The first quarter of last year had only the Main Estimates as available authorities. For the ongoing elements from previous federal budget announcements or transfers between departments and agencies, only the net difference in the level of funding between the two fiscal years is presented in the explanation below. The net changes, amounting to the $6.5 million increase in total available authorities between the current and previous fiscal year, comprise of the following elements:

- an increase of $15.0 million to the NSERC budget to support outstanding research in the natural sciences and engineering. Funds will be allocated to the Strategy for Partnerships and Innovation, and the Discovery Grants Program (Budget 2011);
- an increase of $7.0 million to expand the College and Community Innovation Program. Funds will be allocated to two new initiatives: Industrial Research Chairs for Colleges Grants and College-University Idea to Innovation Grants (Budget 2011);
- an increase of $7.0 million to support excellence in climate change and atmospheric research at Canadian postsecondary institutions (Budget 2011);
- an increase of $3.0 million to select a Canada-India Research Centre of Excellence (CIRCE) (Budget 2011);

- an increase of $1.0 million in grants and scholarships due to a transfer from Natural Resources Canada to support the Generation IV Energy Technologies Program;
- an increase of $0.4 million to the Canada Excellence Research Chairs program to attract and retain the world's most accomplished and promising minds (Budget 2008);
- a decrease of $8.4 million due to the sunsetting of current funds (a new set of funds will ensue for this program) of the Business-Led Networks of Centres of Excellence Program (Budget 2007);
- a decrease of $7.0 million related to the Canada Graduate Scholarships Program due to the phase out of the Economic Action Plan (Budget 2009);
- a decrease of $6.9 million due to the sunsetting of current funds (a new set of funds will ensue for this program) of the Industrial Research and Development Internship Program. The funding of projects under this program was extended for one year using grants and scholarships program funds (Budget 2007);
- a decrease of $1.3 million in operating funds due mainly to the sunsetting of current funds for the Business-Led Networks of Centres of Excellence Program and Industrial Research and Development Internship Program (a new set of funds will ensue for the operating of those programs) (Budget 2007);
- a decrease of $2.0 million in the Networks of Centres of Excellence Program due to the sunsetting of funding from Budget 2004;
- a decrease of $0.5 million in grants and scholarships programs due to a transfer to the International Development Research Centre for the International Research Initiative on Adaptation to Climate Change; and
- a decrease of $0.8 million in transfers to SSHRC and CIHR to cover ring-fenced initiatives that fall under their scope.

Authorities Used in the First Quarter

This departmental QFR reflects the results of the current fiscal period in relation to the 2012-13 Main Estimates and the Supplementary Estimates (A), for which full supply was released by Parliament on June 29, 2012.

Total authorities used during the first quarter of 2012-13 amounted to $281 million (26.7% of the total available authorities: 26.9% of total authorities used for grants and scholarships programs and 21.6% for operating expenditures and employee benefits). This is the same spending as for this quarter in the previous fiscal year ($0.2 million net decrease in authorities used for grants and scholarship expenditures offset by $0.2 million increase in authorities used for operating and employee benefit plan expenditures). The decrease in grants and scholarship expenditures is the net result of the expanded program authorities, increasing demand in some programs, and payment timing differences between the first and second quarters of the comparative fiscal years, which will offset by year-end. The increase in authorities used for operating expenses and the Employee Benefit Plan over the first quarter of the previous year is mainly related to an increase in wage levels in accordance with NSERC's terms and conditions of employment.

Grants and scholarships payments vary between periods due to the cycle and results of the peer-reviewed program competitions, and the multi-year award profiles. The operating expenditures cover personnel and other operating expenses required to support the delivery of the grants and scholarships programs. Expenditures related to the Employee Benefit Plan are accounted for separately in statutory authorities. Although the majority of personnel expenditures and other operating costs are incurred in a consistent manner throughout the fiscal year, the balance of expenditures, including temporary employees hired for the peak competition season and travel costs for peer reviewers, occur in direct

conjunction with the program cycle and are demand driven. As a large proportion of the program competitions occur in the final quarter of the fiscal year, the operating expenditures in each of the first three quarters are typically less than 25% of the annual operating available authorities.

Statement of Departmental Budgetary Expenditures by Standard Objects

Variation in Amounts Available for Use in 2012-13

As described in the Available Authorities section, NSERC's Parliamentary authorities have been increased by $6.5 million for 2012-13 to date over the prior year. The majority of this increase is attributed to the transfer payment (grants and scholarships) programs ($5.2 million) and a slight balance of $1.3 million, increasing the net available authorities for operating expenditures to support the delivery of programs.

The implementation of the government's efforts to return to a balanced budget had no significant impact on the results of the first quarter with the exception mentioned in the Transfer Payments Expenditures section. The savings that resulted from the changes will affect the results of the quarters to come.

Transfer Payments Expenditures (Grants and Scholarships)

First Quarter Grants and Scholarships Expenditures
Transfer payments represent approximately 96% of NSERC's available authorities. Variations occur in transfer payment expenditures between quarters due to the nature of program cycles. During the first quarter of 2012-13, NSERC's actual transfer payment expenditures have decreased by $200,000 compared to the same quarter of the previous fiscal year. Despite the fact that there was only one minor change for the department as a whole, there were a number of differences in specific programs from year to year:

- There was an increase in the Discovery Grants Program of $4.9 million over last year. The majority of this increase is related to additional funds that were allocated for early career researchers and the Discovery Grants Accelerator Supplement, the second of which experienced an increase due to the large number of grantees who have deferred instalments of their supplements from last year and are adding commitments this year.
- The Major Resources Support Program experienced a decrease of $2 million compared to last year, given a moratorium that was placed on the program. This moratorium is part of the implementation of the Budget 2012.
- There was also a $1.8 million decrease in spending in the Collaborative Research and Training Experience Program. This decrease can be explained by the lengthy due-diligence analysis of the mid-term reviews, which resulted in awards not being released at the same time, not being released to date, or being cancelled entirely.
- The postgraduate scholarships program experienced a decrease of $1.3 million from last year. This decrease was a result of the reallocation of some funds from NSERC's scholarships and fellowships programs to the CREATE Program. Furthermore, due to timing of the process, certain scholarships have not been accepted yet.

Personnel Expenditures
Personnel expenditures in support of program delivery account for the largest proportion of NSERC's planned operating expenditures (73.6% of available operating authorities or expenditures for 2012-13).

The personnel expenditures for the first quarter of 2012-13 increased by $0.2 million (2.3%) in comparison to the same period of the prior year. This increase is attributed to an increase in wage levels in accordance with NSERC's terms and conditions of employment.

Non-Personnel Operating Expenditures
Non-personnel operating expenditures include all other operating costs related to the support of program delivery, a significant proportion of which relates to program competitions that take place predominantly during the latter quarter of the fiscal year. The non-personnel operating expenditures for the first quarter of 2012-13 are in line with the comparable expenditures of the prior year.

3. Risks and Uncertainties

Funding and Program Delivery Risk Factors

Through the council's most recent corporate risk identification exercise, the risks that have a potential financial impact or that deal with financial sustainability have been assessed. The impact on NSERC and the planned mitigation strategies related to these risks are discussed below.

External Risk Factors

NSERC is funded through annual Parliamentary spending authorities and statutory authorities for program transfer payments (grants and scholarships programs) and its supporting operating expenditures. As a result, its program activities and operations are impacted by any changes to funding approved through Parliament. Accordingly, delivering programs can be affected by factors such as the economic and political climate, technological and scientific development, and evolving government priorities, which impact approved resource levels (total available authorities).

Research and innovation are part of a global enterprise; therefore participation in our programs is not only influenced by the Canadian context, but also by initiatives and opportunities worldwide. Formal communications and external relations strategies are developed by NSERC to ensure that stakeholder relationships and expectations are managed effectively and that NSERC has fulfilled the research and innovation needs.

There is also the risk that NSERC fails to achieve its mandate and strategic outcomes. To mitigate this risk, an integrated planning process was launched by NSERC in 2012. This process will serve as the foundation for NSERC to plan all aspects of its business in an integrated manner in order to align priorities and resources accordingly.

Internal Risk Factors

NSERC is a knowledge-based organization that relies on maintaining its talented and committed workforce to deliver its programs. To retain its valuable human resources and their corporate memory, NSERC is developing a human resources strategy that outlines the organization's commitments and action plan for developing talent and for building and sustaining a thriving and successful workplace and work culture. NSERC's financial restraints are challenging their ability to hire the skilled resources needed to successfully achieve the transformation and realignment agendas to meet tomorrow's needs.

Potential consequences could include workload management issues and succession planning challenges.

NSERC is transforming its business in order to adapt more efficiently to internal changes and to improve external client service.

Federal Budget 2010 and Budget 2011 announced operating budget constraint measures and froze the operating budgets of federal departments and agencies at their 2010-11 levels for fiscal years 2011-12 and 2012-13. Federal Budget 2012 announced the Government of Canada's efforts to return to a balanced budget. The resulting budgetary pressures include the self-financing of annual salary increases requiring internal reductions and reallocation measures. These pressures are compounded by the operational requirement to support an increased and broadened program base while processing an increasing number of applications within limited operational envelopes and inflationary costs on operating expenditures. NSERC is also managing the requirement for the implementation of modernized technology solutions to better support program delivery.

Thus far, NSERC has achieved the reduction of its operating pressures through economies of scale achieved by the shared administrative service arrangements with the Social Sciences and Humanities Research Council of Canada (SSHRC), corporate-wide prioritization and reduction of activities, internal reallocations and a focus on streamlining and generating efficiencies wherever possible. An established budgetary process with regular in-year budget reviews and formal reallocations for emerging priorities approved by senior management supports this endeavour. NSERC is also undertaking a revision of its operating and grant delivery systems and processes to generate further efficiencies and future savings.

NSERC is a lean agency in terms of operating funding provided to deliver existing and expanding programs (less than 5% of total resources). An integrated planning process to address restraint measures and funding cuts was developed to enhance NSERC's resource decision-making.

4. Significant Changes Related to Operations, Personnel and Programs

There were a number of important changes in comparison with the previous fiscal year that relate to operations, personnel and programs. These include the impacts caused by NSERC's increased available authorities, which resulted in expanded Strategy for Partnerships and Innovation Program dimensions. Another prevalent influence involved the continuing implementation of government-wide operating budget constraint measures and the government's efforts to return to a balanced budget for which details are described in the section below. The federal Budget 2012, tabled in March, included funding announcements with additional program dimensions that are being implemented by NSERC, following Treasury Board and Parliament approvals, over the course of the fiscal year,.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that will be implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

In the first year of implementation, NSERC will achieve savings of approximately $15 million. Savings will increase to $30 million in 2013-14 and ongoing. NSERC examined all of its activities and investments with the intention of streamlining operations and ensuring maximum efficiencies.

In realizing operating budget savings, a number of measures are being implemented to generate greater efficiency and effectiveness, including an enhanced use of technological advancements, such as

teleconferencing and virtual meetings. A rigorous and cohesive approach to priority setting, project planning and training will further help the Council meet its goals.

Expenditures in the first quarter of 2012-13 are only slightly less than the same period from the previous fiscal year. The difference between the two fiscal years is not mainly due to the Budget 2012 measures saving. The saving measures for Budget 2012 will be reflected later in the fiscal year.

There was no incremental funding provided to NSERC to complete the above work which is underway.

There are no financial risks or uncertainties related to these savings.

Approved by:

Originally signed by:

Suzanne Fortier
President, NSERC

Originally signed by:

Jaime W. Pitfield
Vice-President and
Chief Financial Officer, NSERC

Ottawa, Canada

August 28, 2012